

GRACE OUTREACH CENTER
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Grace Outreach Center
New Orleans, Louisiana

I have audited the accompanying financial statements of the **Grace Outreach Center (the Center)**, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Auditor's Responsibility, Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **the Center** as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenditures is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, I have also issued my report dated June 27, 2014 on my consideration of **the Center's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **the Center's** internal control over financial reporting and compliance.



VGR, CPA
CERTIFIED PUBLIC ACCOUNTANT
New Orleans, Louisiana

June 27, 2014

GRACE OUTREACH CENTER
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013

ASSETS

Cash and cash equivalents (NOTE 2)	\$ 31,346
Receivables (NOTE 4)	173,219
Deposits	4,415
Fixed assets net of accumulated depreciation of \$36,248 (NOTES 2 and 3)	<u>11,457</u>
Total assets	<u>\$ 220,437</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 76,908
Accrued interest (NOTE 5)	6,362
Loans payable (NOTE 5)	<u>231,688</u>
Total liabilities	<u>314,958</u>
Net Assets (NOTE 2):	
Unrestricted	<u>(94,521)</u>
Total net assets	<u>(94,521)</u>
Total liabilities and net assets	<u>\$ 220,437</u>

The accompanying notes are an integral part of these financial statements.

GRACE OUTREACH CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Revenue and Support:	
Program services revenue	\$ 903,453
Other income	1,405
Contributions	<u>30,000</u>
Total revenue and support	<u>934,858</u>
Expenses:	
Program services	666,324
Support services	<u>358,947</u>
Total expenses	<u>1,025,271</u>
Change in net assets	(90,413)
Net Assets:	
Beginning of year	(96,142)
Net assets reinstatement (NOTE 13)	<u>92,034</u>
Beginning net assets reinstated	<u>(4,108)</u>
End of year	\$ <u>(94,521)</u>

The accompanying notes are an integral part of these financial statements.

GRACE OUTREACH CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ (90,413)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Adjustment to net assets	92,034
Depreciation	6,278
Increase in accounts receivables	(72,441)
Decrease in other receivables	7,066
Decrease in deposits	838
Decrease in accounts payable	(10,011)
Increase in accrued interest payable	1,370
Increase in short-term loans payable	<u>53,631</u>
Net cash used in operating activities	<u>(11,648)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	<u>(731)</u>
Net cash used in investing activities	<u>(731)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from line of credit borrowing	46,232
Principal payments on notes payable	<u>(9,344)</u>
Net cash provided by financing activities	<u>36,888</u>
Net increase in cash and cash equivalents	24,509
Cash - January 1, 2013	<u>6,837</u>
Cash - December 31, 2013	\$ <u>31,346</u>

The accompanying notes are an integral part of these financial statements.

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Grace Outreach Center is a non-profit organization, which serves as a faith-based intensive outpatient treatment and residential facility that provides a variety of services to adults with addictive disorders in the New Orleans area to assist them in maintaining a lifestyle free from the harmful effects of addiction.

Basis Presentation

For the year ended December 31, 2013, **the Center** followed the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*, in the presentation of its financial statements. Under FASB ASC Section 958-205, **the Center** is required to report, as applicable, information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. In addition, **the Center** is required to present a statement of cash flows.

A description of the three net asset categories is as follows:

Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the missions of **the Center** are included in this category.

Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor-imposed restrictions have not been met.

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions.

At December 31, 2013, **the Center** did not have any temporarily or permanently restricted net assets.

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - ORGANIZATION, CONTINUED:

Contributions

The Center accounts for contributions in accordance with FASB ASC Section 958-605, *Not-for-Profit Entities, Revenue Recognition*, accounting for contributions received and contributions made. In accordance with FASB ASC Section 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted in the accompanying Schedule of Functional Expenses.

Cash and Cash Equivalents

Cash consist solely of demand deposits that are secured by federal deposit insurance up to \$250,000. All highly liquid debt instruments purchased with an original maturity of three (3) months or less are considered to be cash equivalents for purposes of the Statement of Cash Flows. All deposits are secured by federal deposit insurance at December 31, 2013.

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Fixed Assets

Fixed assets that exceed \$1,000 are recorded at cost (or fair market value for donated assets) and are depreciated using the straight-line method over the estimated useful lives of the related assets, which vary from five to seven years.

Income Taxes

The Center is a tax exempt corporation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements.

Should **the Center's** tax status be challenged in the future, the 2009, 2010, 2011, and 2012 tax returns are open for examination by the IRS.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Values of Financial Instruments

Generally accepted accounting principles require disclosure of fair value information about financial instruments for which it is practicable to estimate fair value, whether or not recognized in the Statement of Financial Position. Cash and cash equivalents carrying amounts are reported in the Statement of Financial Position at approximate fair values because of the short maturities of those instruments.

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - FIXED ASSETS

Changes in the net book value of furniture and fixtures costs and vehicles during the year ended December 31, 2013 were as follows:

<u>Description</u>	Balance January 1, 2013	Additions/ Deletions	Balance December 31, 2013
Furniture and fixtures	\$ 4,050	\$ 731	\$ 4,781
Vehicles	42,924	-0-	42,924
Accumulated depreciation	<u>(29,970)</u>	<u>(6,278)</u>	<u>(36,248)</u>
Total	<u>\$ 17,004</u>	<u>\$ (5,547)</u>	<u>\$ 11,457</u>

Depreciation expense totaled \$6,278 for the year ended December 31, 2013.

NOTE 4 - RECEIVABLES

Receivables consist of funds due from the Department of Health and Hospitals - Office Behavioral Health - East Louisiana Mental Health totaling \$173,219.

NOTE 5 - LOANS PAYABLE / RELATED PARTY TRANSACTION

At December 31, 2013, **the Center** had an unsecured loan with a non-profit organization with an outstanding principal balance of \$60,127 maturing on August 16, 2015, during which interest continues to accrue using an interest rate of eight (8%) percent based on a year of 360 days.

The Center also has outstanding loans payable to an executive and a former executive in the amounts of \$111,628 and \$13,700 respectively. Funds borrowed from the former executive is payable on demand at an interest rate of ten (10) percent per annum. The accrued interest for the year ended December 31, 2013 totaled \$6,362.

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 5 - LOANS PAYABLE / RELATED PARTY TRANSACTION, CONTINUED:

The Center has a line of credit with a lending institution with an outstanding principal balance of \$46,233. Amount borrowed bears interest at the rate of 6.25% per annum maturing April 2014. At December 31, 2013, the principal balance totaled \$46,233.

Total loans payable at December 31, 2013 totaled \$231,688.

NOTE 6 - CONTINGENCY AND COMMITMENTS

The Center is the recipient of social service contract funds from various sources. These agreements are governed by various guidelines, regulations, and contractual agreements.

The administration of the programs and activities funded by these agreements are under the control and administration of **the Center** and are subject to audit and/or review by the applicable funding sources. Any programs compliance requirements found not to be properly conducted in accordance with the terms, conditions, and regulations of the funding source may be subject to recapture.

The Center has entered into contractual arrangements with certain individuals to provide operational and professional services. Such contracts vary in length of time depending on services.

NOTE 7 - FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, fair value is defined as the price that **the Center** would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the asset or liability. ASC Topic 820 established a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - FAIR VALUES OF FINANCIAL INSTRUMENTS, CONTINUED

based on the best information available in the circumstances (unobservable inputs) and to established classification of fair value measurements for disclosure purposes.

Various inputs are used in determining the value of **the Center's** assets or liabilities. The inputs are summarized in the three broad levels listed below:

- Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any market activity. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. **The Center's** assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. All investments are considered to be Level 1 investments.

The following table summarizes the valuation of **the Center's** financial instruments measured at fair value by the above ASC Topic 820 fair value hierarchy levels as of December 31, 2013 are as follows:

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - FAIR VALUES OF FINANCIAL INSTRUMENTS, CONTINUED

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 31,346	\$ 31,346
Receivables	173,219	173,219
Deposits	4,415	4,415
Loans payable	231,688	231,688

NOTE 8 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject **the Center** to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. At December 31, 2013, **the Center** had cash and cash equivalents in the bank totaling \$32,261.

These deposits are stated at cost, which approximates market. At December 31, 2013 **the Center** had \$32,261 in deposits. Interest and non-interest bearing deposits are secured from risk by \$250,000 of federal deposit insurance. As of December 31, 2013, **the Center** deposits were within the FDIC limits.

NOTE 9 - RISK MANAGEMENT

The Center is exposed to various risks of loss to torts, theft of, damage to and destruction of assets, for which **the Center** carries commercial liability insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE 10 - BOARD COMPENSATION

The Board of Directors of **the Center** is a voluntary board, therefore, no compensation was paid to any board member during the year ended December 31, 2013.

GRACE OUTREACH CENTER
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 11 - PERSONNEL SERVICES

Personnel services are provided to **the Center** by utilizing leased employees. **The Center** contracts with Administrative OneSource, an employee leasing company to perform certain aspects of its human resource functions including hiring staff selected by **the Center** and providing contracted benefits to those employees. The leased employees provide personnel services to **the Center**, which are reimbursed in full to the employee leasing company by **the Center**.

NOTE 12 - SUBSEQUENT EVENTS

The Center is required to evaluate events or transactions that may occur after the Statement of Financial Position date for potential recognition or disclosure in the financial statements. **The Center** performed such an evaluation through June 27, 2014, the date which the financial statements were available to be issued.

NOTE 13 - NET ASSET RESTATEMENT

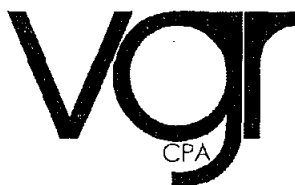
The Center had historical outstanding liabilities totaling \$92,034 that were not considered outstanding at December 31, 2013.

SUPPLEMENTARY INFORMATION

GRACE OUTREACH CENTER
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Services	Support Services	Total
Leased employees	\$ 354,441	\$ 289,572	\$ 644,013
Subcontractor & labor	41,230	0	41,230
Rent	67,500	0	67,500
Insurance	62,506	0	62,506
Utilities	49,398	0	49,398
Repairs and maintenance	0	12,290	12,290
Supplies	4,685	10,931	15,616
Telephone and internet services	0	18,471	18,471
Automobile expense	3,468	0	3,468
Meals and entertainment	6,796	0	6,796
Automobile fuel	0	10,232	10,232
Depreciation expense	6,278	0	6,278
License, permits and fees	0	950	950
Professional fees	63,521	0	63,521
Janitorial and lawncare	0	5,037	5,037
Automobile repair and maintenance	649	0	649
Travel	1,294	0	1,294
Bank fees and interest	0	3,217	3,217
Equipment rental and maintenance	192	0	192
Uniforms	925	0	925
Client related expenses	764	0	764
Charitable donations	0	100	100
Taxes	159	0	159
Postage	0	185	185
Other	838	0	838
Storage	1,680	0	1,680
Administrative support	0	896	896
Bad debt	0	7,066	7,066
	<u>\$ 666,324</u>	<u>\$ 358,947</u>	<u>\$ 1,025,271</u>

See accompanying independent auditor's report.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Grace Outreach Center
New Orleans, Louisiana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Grace Outreach Center (the Center)** which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated June 27, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered **the Center's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **the Center's** internal control. Accordingly, I do not express an opinion on the effectiveness of **the Center's** internal control.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

(CONTINUED)

Internal Control Over Financial Reporting, Continued

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2013-01, 2013-02, 2013-03, 2013-04, and 2013-05.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **the Center's** financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

(CONTINUED)

Grace Outreach's Response to Findings

Grace Outreach's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Grace Outreach's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose; however under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



VGR, CPA
CERTIFIED PUBLIC ACCOUNTANT
New Orleans, Louisiana

June 27, 2014

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings

Audit Finding Reference Number

2013-01 – Financial Reporting

Criteria

Management must establish procedures to ensure the accuracy of the financial statements and the validity of the transactions recorded.

Condition

During the audit, I noted **the Center's** financial reporting process and internal controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions. The audit procedures performed revealed the following:

- Unrecorded receivables and payables which totaled \$63,835 and \$35,976 respectively;
- Monthly bank reconciliations were not prepared properly. The outstanding check listing included checks that either cleared the bank statements or were voided;
- Several loans received by **the Center** were not properly recorded in the general ledger; and
- A bank account was closed mid-year with outstanding checks totaling \$11,257.

Effect

Potential risk of material misstatement of **the Center's** financial statements.

Cause

Effective controls did not exist to prevent or detect a material misstatement of the financial statements.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-01 – Financial Reporting, Continued

Recommendation

I recommend that **the Center** consider engaging a third party to handle the accounting functions of the organization.

Management Response

Management concurs with recommendations and has hired Pro Unum Solutions to handle accounting functions of the organization to ensure the accuracy of the financial statements.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-02 – Segregation of Duties

Criteria

Management of **the Center** is responsible for implementation, design, and operation of internal control to safeguard **the Center's** assets, and to include the complete and accurate preparation of financial statements and related footnotes.

Condition

Considering the size of **the Center's** administrative staff, the important elements of internal control and segregation of duties cannot always be achieved to ensure adequate protection and safeguarding of **the Center's** assets. The financial transactions processing of **the Center** is performed primarily by the Assistant Director under the immediate supervision of a related party.

Furthermore, management does not possess the level of technical capacity internally to facilitate the timely and complete preparation or review of prepared financial statements and related footnotes in accordance with GAAP.

Effect

Potential risk of misappropriation of **the Center's** assets.

Cause

Size of **the Center's** personnel in addition to budgetary constraints.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-02 – Segregation of Duties, Continued

Recommendation

I recommend that management re-evaluate its internal control design, develop and implement procedures and processes to minimize, if not, eliminate the potential risk associated with the described condition. Management should also continue to explore available resources to facilitate the enhancement of **the Center's** internal technical capacity. Additionally, management should ensure the timely review (both at the management and Board levels) of its completed financial statements prepared by management.

Management Response

Management will review their system of internal control and utilize the services of an external accountant to strength policies and procedures. Pro Unum Solutions will assist us until we can utilize an eternal accountant.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-03 – Service Organizations

Criteria

Management must establish internal control objectives for the accuracy of financial statements and the validity of transactions in order to effectively assess areas of potential risk.

Condition

The Center has outsourced selected significant business processes to third-parties or “service organizations”, including payroll. Typically, these activities would be considered part of **the Center’s** system of financial accounting controls and procedures. During my audit, I noted no evidence **the Center** performed a reconciliation of source documentation or other internal control procedures to financial information submitted to **the Center** by the service organizations.

Effect

Potential risk of material misstatement of **the Center's** financial statements.

Cause

Effective controls did not exist to prevent or detect a material misstatement of the financial statements.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-03 – Service Organizations, Continued

Recommendation

While **the Center** has contracted with the service organizations, **the Center** itself remains ultimately accountable for the reliability of the transactions and information provided. To the extent that information processed by a service organization impacts **the Center's** financial statements, the relevant activities of the service organization become part of the financial accounting controls and procedures of **the Center**. I recommend that **the Center** incorporate procedures for evaluating the internal controls over reporting by the service organizations. I further recommend that **the Center** review and/or reconcile reports received from the service organization and maintain evidence to support such review and/or reconciliation that has occurred.

Management Response

Management will establish internal control objectives for the accuracy of financial statements and will implement procedures that require information received from the services organizations to be reviewed and reconciled on monthly to quarterly basis. The process for service organizations is still being developed.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-04 – Beginning General Ledger Balances

Criteria

Management must establish internal control objectives for the accuracy of financial statements and the validity of transactions in order to effectively assess areas of potential risk.

Condition

The Center made several journal entries during the 2013 fiscal year to restate beginning balances to agree with December 31, 2013 audited financial statements. As a result, several of the beginning balances did not reconcile to the annual audited financial statements due to additional posting to the general ledger prior to the beginning balance restatements. This caused the initial December 31, 2013 financial statements to be materially misstated.

Effect

Potential risk of material misstatement of **the Center's** financial statements.

Cause

Effective controls did not exist in the 2013 fiscal year to prevent or detect a material misstatement of the financial statements.

Recommendation

I recommend that **the Center** implement necessary internal control procedures to ensure the adequacy and accuracy of all transactions recorded by **the Center** in the general ledger.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-04 – Beginning General Ledger Balances, Continued

Management Response

Management has hired Pro Unum Solutions to assist with **the Center's** internal controls.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-05 – Deficit Spending

Criteria

Management must establish internal control objectives for the accuracy of financial statements and the validity of transactions in order to effectively assess areas of potential risk.

Condition

I noted the results of activities ended in deficit spending for the fiscal year ended December 31, 2013. There was no documented evidence that a discussion of such results of activities was presented to those charged with governance nor was any discussion of the negative change discussed by the Board.

I also noted during the review of the minutes presented by **the Center** that there was no discussion of budgets. Management indicated no budget was prepared to control spending for the fiscal year.

Effect

The Board of Directors was unable to effectively control spending or provide adequate review and analysis of **the Center's** assets.

Cause

The Center's Board of Directors only met twice during the year and interim financial statements were not presented to the Board of Directors at any time during the year.

GRACE OUTREACH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2013-05 – Deficit Spending, Continued

Recommendation

I recommend that monthly financial statements be prepared within thirty (30) days following the month-end, the year- end financials be prepared within sixty (60) days of year-end, and in each instance be discussed with a Finance Committee and Board of Directors. The minutes of the Finance Committee and Board of Directors meetings should reflect an indication of such discussions.

I also recommend that **the Center** establish and present to the Board of Directors for approval annually a master budget for the organization. I further recommend that **the Center** present no less than quarterly detailed Budget to Actual reports to the full Board of Directors or a Finance Committee to track expenses throughout the year.

Management's Response

Management is working with Pro Unum Solutions to come up with stipulations on how reports for financial reports are to be prepared.

GRACE OUTREACH CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Audit Finding Reference Number

2012-01 – Financial Reporting

Condition

During the audit, I noted **the Center's** financial reporting process and internal controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions. The audit procedures performed revealed the following:

- Unrecorded receivables and payables which totaled \$100,778 and \$86,919 respectively;
- Monthly bank reconciliations were not prepared properly. The outstanding check listing included checks that either cleared the bank statements or were voided; and
- Several loans received by **the Center** were not properly recorded in the general ledger.

Recommendation

I recommend that **the Center** consider engaging a third party to handle the accounting functions of the organization.

Current Status

Unresolved. See finding 2013-01.

GRACE OUTREACH CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS,
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Audit Finding Reference Number

2012-02 – Segregation of Duties

Condition

Considering the size of **the Center's** administrative staff, the important elements of internal control and segregation of duties cannot always be achieved to ensure adequate protection and safeguarding of **the Center's** assets. The financial transactions processing of **the Center** is performed primarily by the Assistant Director under the immediate supervision of a related party.

Furthermore, management does not possess the level of technical capacity internally to facilitate the timely and complete preparation or review of prepared financial statements and related footnotes in accordance with GAAP.

Recommendation

I recommend that management re-evaluate its internal control design, develop and implement procedures and processes to minimize, if not, eliminate the potential risk associated with the described condition. Management should also continue to explore available resources to facilitate the enhancement of **the Center's** internal technical capacity. Additionally, management should ensure the timely review (both at the management and Board levels) of its completed financial statements prepared by management.

Current Status

Unresolved. See finding 2013-02.

GRACE OUTREACH CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS,
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Audit Finding Reference Number

2012-03 – Service Organizations

Condition

The Center has outsourced selected significant business processes to third-parties or “service organizations”, including payroll and bookkeeping. Typically, these activities would be considered part of **the Center’s** system of financial accounting controls and procedures. During my audit, I noted no evidence **the Center** performed a reconciliation of source documentation or other internal control procedures to financial information submitted to **the Center** by the service organizations.

Recommendation

While **the Center** has contracted with the service organizations, **the Center** itself remains ultimately accountable for the reliability of the transactions and information provided. To the extent that information processed by a service organization impacts **the Center’s** financial statements, the relevant activities of the service organization become part of the financial accounting controls and procedures of **the Center**. I recommend that **the Center** incorporate procedures for evaluating the internal controls over reporting by the service organizations. I further recommend that **the Center** review and/or reconcile reports received from the service organization and maintain evidence to support such review and/or reconciliation has occurred.

Current Status

Unresolved. See finding 2013-03.

GRACE OUTREACH CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS,
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Audit Finding Reference Number

2012-04 – Late Audit Report

Condition

The December 31, 2012 audited financial statements were not submitted to the Legislative Auditor's office by the statutory due date of June 30, 2013.

Recommendation

I recommend that the monthly financial statements be prepared within thirty (30) days following the month-end, the year-end financials be prepared within sixty (60) days of year-end, and in each instance be discussed with the Finance Committee and Board of Directors.

The Center should review its financial reporting procedures to ensure that the auditor is engaged timely and that the engagement is completed and submitted to the State of Louisiana Legislative Auditor within the required timeframe.

Current Status

Resolved.

GRACE OUTREACH CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS,
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Statement Findings, Continued

Audit Finding Reference Number

2012-05 – Beginning General Ledger Balances

Condition

The Center made several journal entries during the 2012 fiscal year to restate beginning balances to agree with December 31, 2012 audited financial statements. As a result, several of the beginning balances did not reconcile to the annual audited financial statements due to additional posting to the general ledger prior to the beginning balance restatements. This caused the initial December 31, 2012 financial statements to be materially misstated.

Recommendation

I recommend that **the Center** implement necessary internal control procedures to ensure the adequacy and accuracy of all transactions recorded by **the Center** in the general ledger.

Current Status

Unresolved. See finding 2013-05.

GRACE OUTREACH CENTER
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS,
CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Audit Finding Reference Number

2012-06 – Deficit Spending

Condition

I noted the results of activities ended in deficit spending for the fiscal year ended December 31, 2013. There was no documented evidence that a discussion of such results of activities was presented to those charged with governance nor was any discussion of the negative change discussed by the Board.

I also noted during the review of the minutes presented by **the Center** that there was no discussion of budgets. Management indicated no budget was prepared to control spending for the fiscal year.

Recommendation

I recommend that monthly financial statements be prepared within thirty (30) days following the month-end, the year- end financials be prepared within sixty (60) days of year-end, and in each instance be discussed with a Finance Committee and Board of Directors. The minutes of the Finance Committee and Board of Directors meetings should reflect an indication of such discussions.

I also recommend that **the Center** establish and present to the Board of Directors for approval annually a master budget for the organization. I further recommend that **the Center** present no less than quarterly detailed Budget to Actual reports to the full Board of Directors or a Finance Committee to track expenses throughout the year.

Current Status

Unresolved. See finding 2013-06.



INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT

To the Board of Directors
Grace Outreach Center
New Orleans, Louisiana

In planning and performing my audit of the financial statements of **Grace Outreach Center** for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, I considered **Grace Outreach Center's** internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Grace Outreach Center's** internal control. Accordingly, I do not express an opinion on the effectiveness of **Grace Outreach Center's** internal control.

However, during my audit I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. I previously reported on **Grace Outreach Center's** internal control in my report dated June 27, 2014. A separate report dated June 27, 2014 contains our report on significant deficiencies or material weaknesses in **Grace Outreach Center's** internal control. This letter does not affect my report dated June 27, 2014 on the financial statements of **Grace Outreach Center**.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

CURRENT YEAR MANAGEMENT LETTER COMMENTS

2013-01 - CASH DISBURSEMENTS

I noted during testing of cash disbursements and cash receipts the following:

- Two (2) of forty (40) cash disbursements were not available for review;
- One (1) of forty (40) cash disbursements was not properly cancelled;
- Three (3) of forty (40) cash disbursements were not signed by the Assistant nor Executive Director nor a member of the Board of Directors;
- Four (4) of forty (40) cash disbursements did not have an invoice to support the transaction;
- Three (3) of forty (40) cash disbursements did not have a canceled check or ACH payment to support the payment; and
- One (1) of forty (40) cash disbursements did not have a detail invoice report with the invoice to support the transaction.

Recommendation

I recommend that **the Center** adhere to its established policies and procedures that all applicable cash disbursements be accompanied by proper documentation to support the transaction. Invoices should be reviewed for accuracy and contracts should be executed prior to payment and invoices should be cancelled after payment to reduce the risk of double payment.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

Management's Response

Management will follow established procedures for the processing of cash disbursements. Management will also engage the services of the external accountant to oversee the cash disbursement process. Management will set guidelines for invoices and contracts review prior to payment for increased accuracy.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

2013-02 - PERSONAL USE OF VEHICLE

The Center has entered into an oral agreement for the business use of the Executive Director's vehicle. **The Center** has no policies and procedures for the use of this vehicle or an established understanding with the Board of Directors reflected in the minutes. The vehicle is used for both personal and business purposes of the Executive and Assistant Director. No mileage for personal use is maintained for the vehicle, yet **the Center** incurred costs totaling \$3,468 associated with vehicle.

Recommendation

I recommend that if **the Center** continues to use this vehicle for business use, approval by the Board of Directors be made and reflected in the minutes, the agreement be reduced to writing, and **the Center** maintain mileage and include all associated personal use in the respective tax returns of the Executive Director in accordance with IRS regulations.

Management's Response

Management will develop an agreement for the use of the vehicle and have it approved by the Board of Directors. Management will also develop policies and procedures for the handling of vehicle expenses.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

CURRENT YEAR MANAGEMENT LETTER COMMENTS, CONTINUED

2013-03 - SEGREGATION OF CASH DUTIES

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. During the performance of the audit procedures, I noted several segregation of duties issues regarding cash duties which were primarily caused by the turnover in the accounting staff.

Recommendation

Although the size of the **Grace Outreach Center's** accounting staff prohibits complete adherence to this concept, I believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as the receptionist. Cash receipts could be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, could be forwarded to an accounting staff for postings to the general ledger;
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly;
- Signed checks should be also mailed without allowing them to be returned to the employee responsible for accounts payable; and
- Journal entries should be approved by an employee other than the one who prepared the entry.

Management Response

Management concurs with the finding and will take the necessary steps to re-evaluate its internal control.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

***STATUS OF PRIOR YEAR
MANAGEMENT LETTER COMMENTS***

2012-01 - CASH DISBURSEMENTS

I noted during testing of cash disbursements and cash receipts the following:

- One (1) of twenty-five (25) cash disbursements not properly classified in the general ledger;
- Thirteen (13) of twenty-five (25) cash disbursements were not properly cancelled; and
- Twenty-four (24) of twenty-five (25) cash receipt invoices were not approved by the Assistant nor Executive Director nor a member of the Board of Directors prior to submission for payment.

Recommendation

I recommend that **the Center** adhere to its established policies and procedures that all applicable cash disbursements be accompanied by proper documentation to support the transaction. Invoices should be reviewed for accuracy and contracts should be executed prior to payment and invoices should be cancelled after payment to reduce the risk of double payment.

Current Status

Unresolved.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

STATUS OF PRIOR YEAR
MANAGEMENT LETTER COMMENTS, CONTINUED

2012-02 - PERSONAL USE OF VEHICLE

The Center has entered into an oral agreement for the business use of the Executive Director's vehicle. **The Center** has no policies and procedures for the use of this vehicle or an established understanding with the Board of Directors reflected in the minutes. The vehicle is used for both personal and business purposes of the Executive and Assistant Director. No mileage for personal use is maintained for the vehicle, yet **the Center** incurred costs totaling \$3,853 associated with vehicle.

Recommendation

I recommend that if **the Center** continues to use this vehicle for business use, approval by the Board of Directors be made and reflected in the minutes, the agreement be reduced to writing, and **the Center** maintain mileage and include all associated personal use in the respective tax returns of the Executive Director in accordance with IRS regulations.

Current Status

Unresolved.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

STATUS OF PRIOR YEAR
MANAGEMENT LETTER COMMENTS, CONTINUED

2012-03 - SEGREGATION OF CASH DUTIES

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. During the performance of the audit procedures, I noted several segregation of duties issues regarding cash duties which were primarily caused by the turnover in the accounting staff.

Recommendation

Although the size of the **Grace Outreach Center's** accounting staff prohibits complete adherence to this concept, I believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as the receptionist. Cash receipts could be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, could be forwarded to an accounting staff for postings to the general ledger;
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly;
- Signed checks should be also mailed without allowing them to be returned to the employee responsible for accounts payable; and
- Journal entries should be approved by an employee other than the one who prepared the entry.

Current Status

Unresolved.

GRACE OUTREACH CENTER
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013

I will review the status of these comments during my next audit engagement. I have already discussed many of these comments and suggestions with appropriate personnel of **Grace Outreach Center**, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendation.

This report is intended solely for the information and use of the Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.



VGR, CPA
CERTIFIED PUBLIC ACCOUNTANT

June 27, 2014